Fitch Ratings

Notice of Rating Action

Bond Description	Par Amount	Rating Type	Rating	Action	Eff Date	Notes
San Antonio, TX Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004A	$11,085,000	Long Term	A	New Rating	01-Jun-2004	
San Antonio, TX Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B	$111,105,000	Long Term	A	New Rating	01-Jun-2004	
San Antonio, TX Hotel Occupancy Outstanding Tax Revenue Bonds, Series 1996	$89,700,000	Long Term	A+	Upgrade	01-Jun-2004	

The Rating Outlook is Stable.

Tax Supported
New Issue

San Antonio, Texas

Ratings

New Issue

Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004A .... A
Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B....................... A

Outstanding Debt

Hotel Occupancy Tax Revenue Bonds, Series 1996* .... A+

Rating Outlook .... Stable

*Upgraded to 'A+' from 'A' on June 1, 2004.

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See page 2 for New Issue Details.

■ Outlook

The 'A' rating is based on the prominence of the hospitality industry in San Antonio, solid debt service coverage for the subordinate lien bonds, steady hotel occupancy tax (HOT) revenue generation, and sufficient legal provisions, particularly limiting the cash flow available for future debt. The susceptibility of HOT revenues to market fluctuations, use of HOT revenue to support convention center and convention and visitor bureau operations and debt service, and likelihood of further leveraging of these revenues for future projects are also factored into the rating. The convention and visitor industry is the second largest sector in the local economy, and San Antonio proactively markets itself to both regional and national audiences. As such, the city enjoys a healthy hotel/motel tax revenue resource, although softness in the industry over the past two years has curtailed the rate of revenue growth.

This transaction will restructure outstanding debt issued for the recent expansion of the convention center, providing cash flow capacity for credit support of a contemplated headquarters hotel, as well as a prospective expansion of the center around 2010. Although future project demands on the revenue stream are anticipated, the legal provisions limit revenue available to support those projects. This measure will ensure sufficient funding is available for operations of the convention center and the convention and visitors bureau functions, which are critical to the generation of hospitality sector activity.

■ Rating Considerations

San Antonio is a leading visitor destination in the Texas market and an active participant in the regional and national convention industry. With several tourist attractions, downtown and in various locations around the city, San Antonio was a destination for approximately 20 million visitors in 2002. About 4.5 million of the visitors were business travelers, with the remainder in town for leisure activities. The convention center hosted 682 conventions for 420,000 delegates in 2003, which generated direct spending of an estimated $382.8 million. Conventions held in other facilities, primarily hotels, add to these figures. These delegates accounted for more than 700,000 room-nights. This compares with the nearly 6.8 million room-nights sold citywide for that year. Hotel occupancy rates have hovered around 65% of the city's inventory of nearly 29,000 rooms, with an average room rate of $92 in 2003. For hotels located downtown, the occupancy rate was 75%, with an average room rate of $111. Hotel room inventory has remained fairly constant, growing a modest 0.7% annually on average over the past five years, as has the average daily room rate.

HOT revenue generation benefits from tourist attractions and the convention and visitors bureau's aggressive marketing program.

New Issue Details

$11,085,000 Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004A and $115,105,000 Hotel Occupancy Tax Subordinate Lien Revenue and Refunding Bonds, Series 2004B bonds are dated June 1, 2004 and selling via negotiation to a syndicate managed by J.P. Morgan Securities, Inc. Series 2004A, selling on June 2, will consist of two maturities, Aug. 15, 2028 and 2029, and will be subject to optional redemption prior to maturity at par plus accrued interest. The series 2004B bonds are scheduled to sell on or about June 22 and will be issued as variable-rate obligations, initially consisting of four term bonds maturing Aug. 15, 2005, 2006, 2007, and 2034, respectively. The 2034 term bond will be subject to mandatory tender on Aug. 14, 2008. The series 2004B bonds are not subject to optional redemption prior to the termination of the 2034 term bond and are not subject to optional tender while in the term mode. After the mandatory tender of the 2034 term bond, the interest rate for the bonds will be in a mode selected by the city at a rate determined by the remarketing agent. In addition to term mode, the bonds also bear interest in commercial paper, daily, weekly, auction-rate, and fixed-rate modes.

Security: The bonds are special obligations of the city, payable from pledged revenues consisting of a subordinate lien on the revenues of the 7% general hotel occupancy taxes, plus a subordinate lien on the earnings on the investment of the hotel occupancy tax fund, the debt service fund, and the debt service reserve fund.

Purpose: Proceeds of the series 2004A bonds will be used to refund certain prior lien (series 1996) bonds outstanding. Series 2004B bond proceeds will provide funding for improvements to the convention center and refund certain prior lien bonds outstanding.

Although San Antonio did not escape the recent economic downturn, it weathered the period fairly well. For the last two years, HOT revenues posted modest declines in collections of 2.3% in fiscal 2002 and 0.8% in fiscal 2003. For fiscal 2004, 3.6% growth in revenue collections is projected and revenues are on budget year-to-date. Revenue growth has averaged 2.7% over the past five years and 4.7% for the past 10 years. The 15-year rate is 11.2%, indicating a substantial drop in average annual revenue increases has occurred over the past several years. The city collects a 7% general HOT and a 2% expansion HOT, which is dedicated to the improvement of the convention center, including debt service payments.

The convention center expansion and renovation completed in 2001 was the facility's third expansion. A convention center headquarters hotel adjacent to the facility was also contemplated as part of the latest improvements. A request for proposal will be distributed to developers for the headquarters hotel project, with responses due in August 2004. Should the project move forward, the city anticipates concluding the developer selection process by December 2004 and executing all agreements and financing by March 2005. The hotel will be 1,000 rooms, and the city currently anticipates providing credit support to the financing in the form of excess HOT cash flow on a subordinate basis.

The pledge of 7% general HOT revenues to the series 2004 bonds will be subordinate to the pledge on the series 1996 bonds remaining outstanding upon refunding completion. The 2% expansion HOT is also pledged to the series 1996 bonds, and although not pledged, the city intends to use surplus 2% expansion HOT revenues for debt service payments on the series 2004 bonds as well. Currently, the series 1996 bonds are secured by a pledge of three-quarters of the 7% general HOT and the 2% expansion HOT; however, the series 1996 ordinance will be amended to include the full 7% general HOT, as now authorized by state law. Minimum annual debt service coverage on the subordinate bonds is projected to be 2.5 times (x), assuming a 2% annual growth in revenues for 10 years with no growth thereafter. The corresponding coverage for the series 1996 bonds remaining outstanding upon refunding completion will be 4.2x. The remaining HOT revenues are resources for the city's Community and Visitor Facility Fund, which includes the operations of convention facilities, the convention and visitors' bureau, Alamodome, international affairs, cultural affairs, outside arts agencies, and other convention/ tourist-related activities.

Security provisions include an additional bonds test of 1.5x maximum annual debt service (MADS) for 12 consecutive out of the preceding 18 months, including debt service on the bonds to be issued. The reserve fund requires a common fund for the prior and subordinate lien bonds in an amount the least of 10% of the original principal amount of all bonds, MADS for all bonds, or 125% of average debt service for all bonds. The flow of funds for the 2% expansion HOT, in the following order, is to the prior lien debt service fund, the

Hotel Occupancy Tax and Series 1996 Debt Service Coverage
($000, Fiscal Years Ended June 30)

	1999	2000	2001	2002	2003
7% Hotel Occupancy Tax Revenue	31,243	34,303	35,828	35,006	34,715
% Change	2.4	9.8	4.4	(2.3)	(0.8)
Pledged Revenue*	33,597	36,379	37,957	37,106	36,805
% Change	2.2	8.3	4.3	(2.2)	(0.8)
Annual Debt Service	8,926	9,801	10,236	10,002	9,919
Debt Service Coverage (x)	3.8	3.9	3.9	3.6	3.4

*Pledged revenue for series 1996 consists of a priority lien on 5.25% of the general hotel occupancy tax (HOT; to be amended to include the full 7% general HOT), 2% expansion HOT, and investment earnings.

prior lien debt service reserve fund, payment of any subordinate lien obligations, and to the facilities fund. For the 7% general HOT, composed of 5.25% and 1.75% portions, the order of the flow of funds is to the prior lien debt service fund, the prior lien debt service reserve fund, the subordinate lien debt service fund, the subordinate lien debt service reserve fund, and then to the general account for any lawful purpose.

Strengths

- Prominent hospitality industry within the city.
- Steady HOT revenue generation.
- Solid debt service coverage.
- Adequate legal provisions.

Risks

- Susceptibility of HOT revenues to market fluctuations.
- Use of revenues to support other operations, as well as debt service.
- Likelihood of further debt for future projects.

Hotel Occupancy Tax

Effective Jan. 1, 1994, the local HOT tax levy has been 9% of the room rate, made up of the 7% general and 2% expansion tax components. In addition, the State of Texas levies a 6% tax and Bexar County a 1.75% tax for a total HOT tax rate of 16.75% on the room rate. The state collects the tax and then remits revenue to the city.

State statute governs the allocation of the 7% general HOT tax to operational areas. A minimum of 50% must be spent for tourism, not more than 15% for the arts or 15% for history and preservation, and 20% may be used for tourism or project improvements, including debt service. The 7% general HOT has been levied at that rate since 1987.

The 2% expansion HOT can only be used for expansion of the existing convention center facilities or payment of obligations issued for such purpose. By state law, a master plan was required to utilize the expansion HOT for debt service and initially included the existing convention center. The master plan will be amended to include the headquarters hotel, the Alamodome, an office building and site, and Municipal Auditorium. This will enable the expansion HOT revenues to be used for improvements to these facilities. The Alamodome is a multipurpose stadium with 160,000 square feet of exhibit space and Municipal Auditorium is a 5,000-seat performing arts center. The office building and site are currently the

Projected Debt Service Coverage
($000, Fiscal Years Ending June 30)

	2005	2010	2015	2020	2025	2030
Pledged Revenue Senior Bonds*	45,526	50,265	54,408	54,408	54,408	—
Senior Lien Debt Service**	3,927	3,927	12,621	9,981	9,985	—
Debt Service Coverage (x)	11.6	12.8	4.3	5.5	5.5	—
Pledged Revenue Subordinate Bonds†	31,482	35,168	31,738	32,337	32,335	42,317
Debt Service Coverage (x)	4.6	3.4	9.5	5.4	4.6	10.3

*Hotel occupancy tax (HOT) revenue growth assumption of 2% annually through 2013, with zero growth thereafter. **Senior lien pledged revenue consist of a prior lien on the 7% general HOT, 2% expansion HOT, and investment earnings. †Subordinate lien pledged revenue consists of a subordinate lien on the 7% general HOT and investment earnings.

main office for the San Antonio Water System, which will be purchased by the city as part of the footprint for future expansion of the convention center. Both the potential credit support for the headquarters hotel and the future convention center expansion project are currently anticipated to be funded essentially by the expansion HOT portion on a subordinate lien basis.

Security Provisions

The bonds are special obligations of the city, payable from pledged revenues consisting of a subordinate lien on the revenues of the 7% general hotel occupancy tax, plus a subordinate lien on the earnings on the investment of the hotel occupancy tax fund, the debt service fund, and the debt service reserve fund. The city covenants to levy the tax for as long as bonds remain outstanding.

Flow of Funds — 7% General HOT: In priority order, funds flow to the prior lien debt service fund, the prior lien debt service reserve fund, the subordinate lien debt service fund, the subordinate lien debt service reserve fund, and then to the general account for any lawful purpose. (The 7% general HOT consists of two components, the 5.25% and 1.75% HOT, for which the flow of funds is identical.)

Flow of Funds — 2% Expansion HOT: In priority order, funds flow to the prior lien debt service fund, the prior lien debt service reserve fund, payment of any subordinate lien obligations, and then to the facilities fund.

Additional Bonds: The test for additional subordinate bonds requires no default, the satisfaction of the reserve requirement, and MADS coverage of at least 1.5x for 12 consecutive months of the preceding 18 months, including the bonds to be issued.

Reserve Fund Requirement: The requirement for the prior and subordinate lien bonds, or common, reserve is the least of 10% of the original principal amount of all bonds, MADS for all bonds, or 125% of average debt service for all bonds. A surety policy may satisfy the requirement, and upon issuance of additional bonds, an initial deposit, surety, or 12 monthly deposits will satisfy the requirement.

Finances

A decline in general HOT revenues from the previous year has been experienced three times since 1975, in fiscal years 1986, 2002, and 2003. However, in all three cases, the rates of decline were modest at 2.6%, 2.3%, and 0.8%, respectively. These periods coincide with economic recessions or slowdowns experienced in the state. The amount of general HOT revenue collected is significant, with $34.7 million generated in fiscal 2003 and $36 million budgeted for fiscal 2004. This level is slightly over the amount collected in fiscal 2001, $35.8 million, essentially recouping the losses experienced in the past two fiscal years. Anticipated demand for lodging, projected average daily room rates, and estimated room supply were relevant factors analyzed in developing HOT revenue estimates.

The general HOT tax is the primary revenue source for the city's Community and Visitor Facilities Fund, a special revenue fund created by consolidating the previous Alamodome, Wolff Stadium, and Hotel/Motel Occupancy Tax Fund. The revenues and operations of the convention facilities, convention and visitors' bureau, Alamodome, international affairs, cultural affairs, outside arts agencies, and other convention/tourist related activities are included in the new fund. The total fund revenue budget for fiscal 2004 is $54.2 million, and the expenditure budget totals $46.1 million. The expansion HOT tax is budgeted in a separate fund.

Assuming a 2% annual growth rate in HOT revenues for 10 years and then no growth thereafter, debt service coverage on the prior lien series 1996 bonds remaining outstanding upon refunding completion will be sound at a minimum 4.2x annual debt service. For the series 2004 subordinate lien bonds, coverage is also project to be solid at a minimum 2.5x annual debt service.

STANDARD & POOR'S PUBLIC FINANCE

Publication date: 17-Jun-2004
Reprinted from RatingsDirect

Summary: San Antonio, Texas

Credit Analysts: Horacio Aldrete-Sanchez, Dallas (1) 214-871-1426; David G Hitchcock, New York (1) 212-438-2022

Credit Profile
US$115.105 mil Hotel Occupcy Tax Subord Lien Rev & Rfdg Bonds, Series 2004B dtd 06/01/2004 due 08/15/2034
A+
Sale date: 21-JUN-2004

AFFIRMED
Outstanding Hotel Occupcy Tax Subord Lien, Series 2004A

A+

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating, and stable outlook, to San Antonio, Texas' $115.105 million series 2004B hotel occupancy tax subordinate-lien revenue refunding bonds.

Standard & Poor's also affirmed its 'A+' Standard & Poor's underlying rating (SPUR) on the city's series 2004A hotel occupancy tax subordinate-lien revenue bonds outstanding.

The ratings reflect:

- San Antonio's strong regional convention, business, and tourism base;
- Adequate legal provisions, including an additional bonds test that requires a 1.5x maximum annual debt service (MADS) coverage on existing and proposed debt and a closed lien on the prior-lien bonds; and
- Strong debt service coverage levels on both the prior- and subordinate-lien bonds.

Credit risks associated with revenues derived from taxes on discretionary and potentially cyclical items, such as hotel rooms, preclude a higher rating.

A subordinate-lien pledge of the revenues from the city's 5.25% and 1.75% hotel occupancy taxes secures the series 2004A and 2004B bonds. The city will use proceeds from this issuance to refund a portion of its series 1996 prior-lien bonds outstanding and finance the construction of improvements to its convention center.

San Antonio ('AA+' GO debt rating), with about 1.2 million residents, is Bexar County's seat and the nation's ninth-largest city. The city's economy is diverse with a strong presence in the biotechnology, tourism, trade, telecommunications, and military sectors. In addition, the designation of San Antonio as the site for a new Toyota Motor Corp. truck manufacturing facility, which is scheduled to be complete by the end of 2005, has brought substantial growth to the south portion of the San Antonio MSA.

The hospitality industry is one of the main components of San Antonio's economy with an estimated effect of $7.10 billion and 86,380 jobs with an annual payroll of roughly $1.37 billion. The city is home to a broad base of hotels that offer an estimated 28,926 rooms; the average occupancy rate was 65% in 2003. Despite increased competition, economic downturns, and the adverse effects that the terrorist attacks of Sept. 11, 2001, had on the hospitality industry, hotel occupancy rates, average daily rates, and room nights have remained stable over the past five years. A good portion of the city's recent hotel industry growth has occurred in the downtown and River Walk areas where eight of the 10 leading hotel tax revenue generators are located. These hotels accounted for an estimated 40% of total hotel occupancy tax revenues in fiscal 2003.

Despite declines of 2.3% in fiscal 2002 and 0.8% in fiscal 2003, hotel tax revenues have increased by 11% over the past five years. Revenues are gradually recovering, and the first six months of fiscal 2004 registered a 2.7% increase over the same period in fiscal 2003. Historically, coverage has been very strong; revenues provided a strong 3.7x MADS coverage on the 1996 prior-lien bonds in fiscal 2003. Coverage on the subordinate-lien bonds, calculated at the maximum contractual rate of 10% for the variable portion of the debt, was also strong with 2003 available revenues providing 1.7x MADS coverage.

The bonds' legal provisions are adequate and feature an additional bonds test that requires 1.5x historic MADS coverage and a debt service reserve funded at the combined MADS of the prior- and subordinate-lien bonds. About 57% of the city's hotel tax revenue bonds outstanding will be variable-rate debt. According to the ordinance authorizing the variable-rate bonds, a failed remarketing does not constitute an event of default.

The city does not plan to issue additional parity debt in the medium term. A subordinate-lien pledge of the revenues derived from the city's 2% expansion hotel occupancy tax will secure the anticipated bonds, which will be issued to finance the construction of a convention center hotel.

Outlook

The stable outlook reflects the expectation that regional convention and tourism activity will continue to provide a strong and growing base for pledged revenues. The stable outlook also reflects a limited amount of future debt.

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find Ratings, then Credit Ratings Search.

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STANDARD & POOR'S

PUBLIC FINANCE

Publication date: 28-May-2004
Reprinted from RatingsDirect

Summary: City of San Antonio, Texas

Credit Analysts: Horacio Aldrete-Sanchez, Dallas (1) 214-871-1426; David G Hitchcock, New York (1) 212-438-2022

Credit Profile
US$11.085 mil Hotel Occupancy Tax Subord Lien, Series 2004A dtd 06/01/2004 due 08/15/2029
A+
Sale date: 02-JUN-2004

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating, and stable outlook, to San Antonio, Texas' $11.085 million series 2004A hotel occupancy tax subordinate-lien revenue refunding bonds.

Standard & Poor's also assigned its 'A+' Standard & Poor's underlying rating (SPUR) to the city's series 1996 prior-lien hotel occupancy tax revenue bonds.

The ratings reflect:

- San Antonio's strong regional convention, business, and tourism base;
- Adequate legal provisions, including an additional bonds test that requires a 1.5x maximum annual debt service (MADS) coverage on existing and proposed debt and a closed lien on the prior-lien bonds; and
- Strong debt service coverage levels on both the prior- and subordinate-lien bonds.

Credit risks associated with revenues derived from taxes on discretionary and potentially cyclical items, such as hotel rooms, preclude a higher rating.

A prior-lien pledge of the revenues from the city's 5.25% and 1.75% hotel occupancy tax, as well as the 2.00% expansion hotel occupancy tax, secures the 1996 bonds. A subordinate-lien pledge of the revenues from the city's 5.25% and 1.75% hotel occupancy tax secures the series 2004A bonds. The city will use proceeds from this issuance to refund a portion of its series 1996 prior-lien bonds outstanding. The city is concurrently issuing $115 million of variable-rate subordinate-lien bonds (Series 2004B).

San Antonio ('AA+' GO debt rating), with about 1.2 million residents, is Bexar County's seat and the nation's ninth-largest city. The city's economy is diverse with a strong presence in the biotechnology, tourism, trade, telecommunications, and military sectors. In addition, the designation of San Antonio as the site for a new Toyota Motor Corp. truck manufacturing facility, which is scheduled to be complete by the end of 2005, has brought substantial growth to the south portion of the San Antonio MSA.

The hospitality industry is one of the main components of San Antonio's economy, with an estimated effect of $7.1 billion and 86,380 jobs with an annual payroll of roughly $1.37 billion. The city is home to a broad base of hotels that offer an estimated 28,926 rooms; the average occupancy rate was 65% in 2003. Despite increased competition, economic downturns, and the adverse effects that the terrorist attacks of Sept. 11, 2001, had on the hospitality industry, hotel occupancy rates, average daily rates, and room nights have remained stable over the past five years. A good portion of the city's recent hotel industry growth has occurred in the downtown and River walk areas where eight of the 10 leading hotel tax revenue generators are located. These hotels accounted for an estimated 40% of total hotel occupancy tax revenues in fiscal 2003.

Despite declines of 2.3% in fiscal 2002 and 0.8% in fiscal 2003, hotel tax revenues have increased by 11% over the past five years. Revenues are gradually recovering with the first six months of fiscal 2004 registering a 2.7% increase over the same period in fiscal 2003. Historically, coverage has been very strong; revenues provided a strong 3.7x MADS coverage on the 1996 prior-lien bonds in fiscal 2003. Coverage on the subordinate-lien bonds, calculated at the maximum contractual rate of 10% for the variable portion of the debt, was also strong with 2003 available revenues providing 1.7x MADS coverage.

The bonds' legal provisions are adequate and feature an additional bonds test that requires 1.5x historic MADS coverage and a debt service reserve funded at the combined MADS of the prior- and subordinate-lien bonds. About 57% of the city's hotel tax revenue bonds outstanding will be variable-rate debt. According to the ordinance authorizing the variable-rate bonds, a failed remarketing does not constitute an event of default.

The city does not plan to issue additional parity debt in the medium term. A subordinate-lien pledge of the revenues derived from the city's 2% expansion hotel occupancy tax will secure the anticipated bonds that will be issued to fund the construction of a convention center hotel.

Outlook

The stable outlook reflects the expectation that regional convention and tourism activity will continue to provide a strong and growing base for pledged revenues. The stable outlook also reflects a limited amount of future debt.

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